

ORIGINAL



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OPEN MEETING AGENDA ITEM

47

BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON

Chairman

WILLIAM A. MUNDELL

Commissioner

JEFF HATCH-MILLER

Commissioner

KRISTIN K. MAYES

Commissioner

GARY PIERCE

Commissioner

Arizona Corporation Commission

DOCKETED

MAY 29 2007

DOCKETED BY

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IN THE MATTER OF THE APPLICATION  
OF SOUTHERN CALIFORNIA EDISON  
COMPANY AND ITS ASSIGNEES IN  
CONFORMANCE WITH THE  
REQUIREMENTS OF ARIZONA REVISED  
STATUTES SECTIONS 40-360.03 AND  
40-360.06 FOR A CERTIFICATE OF  
ENVIRONMENTAL COMPATIBILITY  
AUTHORIZING CONSTRUCTION OF A  
500kV ALTERNATING CURRENT  
TRANSMISSION LINE AND RELATED  
FACILITIES IN MARICOPA AND LA PAZ  
COUNTIES IN ARIZONA ORIGINATING  
AT THE HARQUAHALA GENERATING  
STATION WEST OF PHOENIX,  
ARIZONA AND TERMINATING  
AT THE DEVERS SUBSTATION IN  
RIVERSIDE COUNTY, CALIFORNIA

) Docket No. L-00000A-06-0295-  
) 00130

) Case No. 130

AZ CORP COMMISSION  
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2007 MAY 29 P 3:12

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SOUTHERN CALIFORNIA EDISON COMPANY'S NOTICE OF FILING

COMMENTS SUPPORTING OPEN ACCESS

FOR OFF-SYSTEM NATURAL GAS DELIVERIES

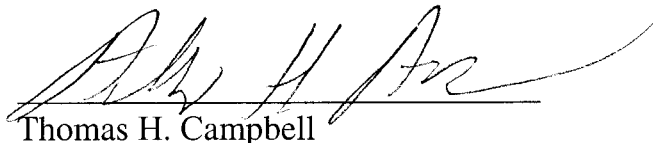
During the Arizona Power Plant and Line Siting Committee ("Committee")  
hearings in this matter, Southern California Edison Company ("SCE") committed to  
file, in this docket, comments it made in a California Public Utilities Commission  
("CPUC") proceeding concerning off-system sales and deliveries of natural gas within

1 California. (Committee Transcript at 2120:17-2121:17).

2 Accordingly, attached is the April 22, 2005, Prehearing Conference Statement  
3 filed by SCE in that CPUC proceeding. Please note, although this CPUC proceeding  
4 only addressed deliveries of natural gas to be consumed within California, SCE's  
5 comments in response requested reconsideration of this limitation and asked the CPUC  
6 "to consider the impact of off-system deliveries at all of [Southern California Gas  
7 Company's] interconnection points." These interconnection points include Ehrenberg,  
8 which is accessible to Arizona users.

9 RESPECTFULLY SUBMITTED this 29<sup>th</sup> day of May, 2007.

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17 Attorneys for Southern California Edison  
18 Company

19 **ORIGINAL** and twenty-five (25) copies  
20 of the foregoing filed this 29<sup>th</sup> day of  
21 May, 2007, with:

22 The Arizona Corporation Commission  
23 Utilities Division – Docket Control  
24 1200 W. Washington Street  
25 Phoenix, Arizona 85007  
26

1 **COPY** of the foregoing hand-delivered  
2 this 29<sup>th</sup> day of May, 2007, to:

3 Chairman Mike Gleason  
4 The Arizona Corporation Commission  
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6 Phoenix, Arizona 85007

7 Commissioner William A. Mundell  
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1       **COPY** of the foregoing mailed/served electronically  
2       this 29<sup>th</sup> day of May, 2007, to:

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Rosemary Clark

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE  
STATE OF CALIFORNIA**

In the Matter of the Application of San	)	
Diego Gas & Electric Company (U 902-G)	)	
and Southern California Gas Company (U	)	A.04-12-004
904 G) for Authority to Integrate Their Gas	)	
Transmission Rates, Establish Firm Access	)	
Rights, and Provide Off-System Gas	)	
Transportation Services	)	

**PREHEARING CONFERENCE STATEMENT OF SOUTHERN CALIFORNIA  
EDISON COMPANY (U338-E)**

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April 22, 2005

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE  
STATE OF CALIFORNIA**

In the Matter of the Application of San )	
Diego Gas & Electric Company (U 902-G) )	
and Southern California Gas Company (U )	A.04-12-004
904 G) for Authority to Integrate Their Gas )	
Transmission Rates, Establish Firm Access )	
Rights, and Provide Off-System Gas )	
<u>Transportation Services )</u>	

**PREHEARING CONFERENCE STATEMENT OF SOUTHERN CALIFORNIA  
EDISON COMPANY (U338-E)**

**I.**

**INTRODUCTION**

In Rulemaking ("R.") 04-01-025, the California Public Utilities Commission ("CPUC" or "Commission") is addressing policies and rules to ensure reliable, long-term supplies of natural gas to California. In the Phase I decision of the Rulemaking, Decision ("D.") 04-09-022, the Commission directed Southern California Gas Company ("SoCalGas") and San Diego Gas and Electric Company ("SDG&E") (collectively "SoCalGas/SDG&E") to file an application on firm access rights ("FAR"), integration of the SoCalGas/SDG&E transmission system, and the provision of off-system deliveries for natural gas to be consumed within California.<sup>1</sup>

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<sup>1</sup> See Ordering Paragraph 8 of D.04-09-022 (relating to firm access rights and system integration). See also Finding of Fact 52 and Section 7.9 of D.04-09-022 (relating to off system deliveries).

In response to D.04-09-022, SoCalGas/SDG&E filed Application No. ("A.") 04-12-004, which was heavily protested.<sup>2</sup>

On March 24, 2005, Assigned Commissioner Brown and Administrative Law Judge Wong issued a ruling and notice of prehearing conference in A.04-12-004 ("Ruling"). The Ruling identifies a preliminary list of issues proposed to be considered for inclusion in the scope of this proceeding and also calls for parties to file prehearing conference statements to address whether they agree with the preliminary list of issues identified in the Ruling, whether any other issues should be included within the scope of the proceeding, which issues require evidentiary hearings, and the proposed schedule for processing A.04-12-004. Pursuant to the procedural schedule set forth in the Ruling, Southern California Edison Company ("SCE") submits the following prehearing conference statement.

## II.

### ISSUES TO BE INCLUDED IN THIS PROCEEDING

SCE is pleased with the broad range of issues that the Ruling contemplates considering in this proceeding. The scope of this proceeding must necessarily be broad because SoCalGas/SDG&E's proposals in A.04-12-004 cover a significant number of issues with wide ramifications for California's natural gas markets. As discussed in more detail below, the Ruling identifies issues that contain both policy and ratemaking questions. SCE believes that this proceeding should address all policy issues relating to assuring adequate supplies and deliverability of gas to California. Matters of ratemaking themselves should be established in SoCalGas

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<sup>2</sup> Sixteen parties filed protests or responses to SoCalGas/SDG&E's Application No. 04-12-004.



and SDG&E's Biennial Cost Allocation Proceedings ("BCAPs")<sup>3</sup> and should not hold up these important policy determinations.

It is not necessary or desirable to bifurcate this proceeding to address SoCalGas/SDG&E's proposal for the economic integration of their systems before addressing their FAR proposal.<sup>4</sup> Economic system integration is largely a ratemaking issue and to that extent, a proper forum for its consideration would be the BCAPs of SoCalGas and SDG&E. In addition, the need for firm access rights was affirmed almost six years ago in the Commission's "promising options" decision<sup>5</sup> and then reaffirmed in the subsequent adoption of the Comprehensive Settlement Agreement ("CSA").<sup>6</sup> Bifurcation would only serve to delay the examination and implementation of a system of firm access rights, which would delay the development of potential LNG facilities and impede gas on gas competition. The development of LNG facilities represents a major commitment on the part of developers, a commitment that requires a level of certainty about their ability to access the SoCalGas system. Until the Commission rules on the FAR proposal (or alternatives), that degree of certainty may not be there. Further, since SoCalGas' BCAP is not scheduled to be filed until the Commission makes a determination on firm access rights, a delay in the consideration of firm access rights would certainly further delay the filing of SoCalGas' long overdue BCAP.<sup>7</sup>

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<sup>3</sup> In Decision No. 04-04-015, the Commission adopted SoCalGas' CSA tariffs but stayed the decision pending adoption of an order in Phase I of R. 04-01-025. Subsequently, in Decision No. 04-05-039, the Commission ordered SoCalGas to file a new BCAP within 120 days of the date the stay of Decision No. 04-04-015 is lifted, or as otherwise ordered by the Commission.

<sup>4</sup> Ruling, p. 6.

<sup>5</sup> Decision No. 99-07-015.

<sup>6</sup> Decision No. 01-12-018.

<sup>7</sup> The Ruling identified the following issue for consideration in this Application: "If the Commission adopts a system of firm access rights in this proceeding, should SDG&E and SoCalGas be required to file their respective BCAPs sometime thereafter? (See D.04-05-039)" SCE agrees that, as provided for in D.04-05-039, SoCalGas and SDG&E's BCAP applications should be filed 120 days after the CPUC lifts the stay in D. 04-04-015.

**Firm Access Rights Proposal:**

By way of background, SCE was an active party in the Commission's Gas Industry Restructuring efforts that led to the Commission's adoption of the CSA in D. 01-12-018. SCE was a signatory to the CSA, which called for a system of firm, tradable open access intrastate transmission rights, unbundling of transmission and storage costs, and changes to system storage and balancing as contemplated in D. 99-07-015, the so-called "promising options" decision.

However, the FAR proposal submitted by SoCalGas/SDG&E in A.04-12-004 for receipt point access is, at best, an incomplete attempt to fulfill the commitment SoCalGas made in the CSA to provide for firm, intrastate transmission rights on the SoCalGas system. The SoCalGas/SDG&E FAR proposal does not appear to provide firm transmission access rights nor does it guarantee firm customers that they will have any more transport certainty than they have under SoCalGas' existing tariffs. In this regard, SoCalGas/SDG&E have not demonstrated that their FAR proposal will provide the long-term economic benefits foreseen by the Commission when it adopted the CSA.

Any retreat from the principles adopted in the previously approved CSA should be examined carefully.<sup>8</sup> First, the CSA called for unbundling of backbone transmission costs and setting rates based on the unbundled costs. This unbundling would assure correct economic signals by reducing or eliminating any disparity between the costs a customer would impose on the system and the rates it would pay. In contrast, the FAR proposal does not call for unbundling and would set rates for firm capacity based on an arbitrary rate of 5¢/dth. However, an arbitrary rate does not match system costs to rates and may merely cause a shift of

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<sup>8</sup> The Ruling identified the following issue for consideration in this Application: "If the Commission adopts a system of firm access rights in this proceeding, will D.01-12-018 and D.04-04-015 be rendered moot?" To the extent the CPUC's adoption of firm access rights does not address CSA issues, Decision Nos. 02-12-018 and 04-04-015 would not be rendered moot.

cross-subsidies, resulting in potential rate shock and no improvement in the economic efficiency of the SoCalGas system. Therefore, SCE agrees that the issue of whether backbone transmission costs should be unbundled from local transmission and distribution costs, as was proposed in the CSA, should be addressed in evidentiary hearings in this proceeding.<sup>9</sup>

Second, the CSA called for the unbundling of SoCalGas' storage operations and placing SoCalGas at risk for recovery of storage costs. Currently, SoCalGas is not at risk for firm transportation revenues but is at risk for storage revenues and for a share of Hub revenues through the Gas Cost Incentive Mechanism ("GCIM"). The economic risks of storage and of transportation should be equivalent so that the gas utility will not have the incentive to favor one kind of service over another. In SoCalGas' case, the lack of equivalent at-risk provisions could result in SoCalGas favoring its storage services, which are at-risk because of the utility's GCIM, over its transportation services. SCE therefore supports for inclusion in this proceeding the issue of storage unbundling and whether SoCalGas should be equally at risk for its storage costs<sup>10</sup> and its gas transmission revenues.<sup>11</sup> In this regard, the Commission should also specifically call out as an issue for this proceeding the impact of the FAR proposal on SoCalGas' storage operations and its Hub transactions.

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<sup>9</sup> The Ruling identified the following issue for consideration in this Application: "Should backbone transmission costs be unbundled from local transmission and distribution costs, as was done in the CSA?"

<sup>10</sup> The Ruling identified the following issue for consideration in this Application: "Should gas storage of SoCalGas be unbundled, and should SoCalGas be at risk for recovery of its storage costs?"

<sup>11</sup> The Ruling identified the following issue for consideration in this Application: "Should SDG&E and SoCalGas bear part or all of the risk for gas transmission revenues?" The April 21, 2005 Assigned Commissioners' Ruling in Phase II of R. 04-01-025 provides that the Commission is "considering issues related to the allocation of pipeline risk related to SoCalGas in A. 04-12-004." April 21, 2005 Ruling in R. 04-01-025, p. 8.

Third, the CSA addressed the effects of operational constraints on the SoCalGas system and provided changes related to gas balancing, diversion, and curtailment procedures. Although absent from SoCalGas/SDG&E's FAR proposal, these issues continue to be relevant with respect to any firm access rights proposal and should be considered in this proceeding. In this regard, SCE supports the inclusion of the issue of whether SoCalGas' existing gas balancing, diversion, and curtailment procedures should be changed.<sup>12</sup> Specifically, the Commission should thoroughly examine in evidentiary hearings the current balancing limits, including the winter balancing rules, before it adopts any system to allocate firm access or transportation rights. It would also be important for the Commission to examine the frequency with which SoCalGas has called OFOs<sup>13</sup> and its impact on shippers' ability to meet current balancing rules.

Because SoCalGas/SDG&E's FAR proposal falls short of the system of firm, tradable transmission rights contemplated under the CSA and "promising options" decision, SCE believes evidentiary hearings are necessary to examine whether the existing "windowing"<sup>14</sup> system of gas nominations should be retained or refined,<sup>15</sup> whether SoCalGas/SDG&E's FAR proposal should be adopted,<sup>16</sup> whether there should be a system of firm tradable rights that more closely reflects the system

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<sup>12</sup> The Ruling identified the following issue for consideration in this Application: "Should the gas balancing, diversion, and curtailment procedures be changed?"

<sup>13</sup> For example, in November 2004, SoCalGas called 20 OFOs.

<sup>14</sup> "Windowing" refers to a system in which SoCalGas would balance its system by refusing to confirm nominations for the full physical capacity of its receipt points. SoCalGas no longer uses "windowing" to control access to its system. Rather, under the current system, it confirms all nominations and imposes stricter balancing rules on its noncore customers to keep its system in balance.

<sup>15</sup> The Ruling identified the following issue for consideration in this Application: "Should the existing "windowing" system of gas nominations and transmission be retained, or should refinements be made to the existing system?"

<sup>16</sup> The Ruling identified the following issue for consideration in this Application: "Should the firm access rights proposal of SDG&E and SoCalGas be adopted?"

contained in the CSA,<sup>17</sup> and whether there are other potential alternatives (including path specific rights)<sup>18</sup> that are preferable.

In addition to the CSA-related issues described above, the Ruling identifies three general issues relating to transmission system constraints on SoCalGas/SDG&E's system. First, the Ruling proposes to address the advantages and disadvantages of a path specific system as opposed to SoCalGas/SDG&E's FAR proposal.<sup>19</sup> SCE is concerned that undefined constraints on the SoCalGas system may potentially interfere with the reliable delivery of gas to the burner-tip. It is therefore appropriate to examine the need for path specific rights in evidentiary hearings to determine whether holding such rights will provide a greater assurance of reliable service to any customer who holds such rights than firm access rights. Second, the Ruling includes the issue of whether SoCalGas/SDG&E's proposed transmission zones should be implemented if they only serve to provide an undue advantage to LNG supplies entering through the Southern Transmission Zone at Otay Mesa<sup>20</sup> and whether they discriminate against California natural gas producers or other potential sources of gas supply.<sup>21</sup> SCE firmly believes that access to SoCalGas/SDG&E's system should be designed to promote fair economic

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<sup>17</sup> The Ruling identified the following issue for consideration in this Application: "Should there be a system of firm tradable rights for SDG&E and SoCalGas that more closely reflects the system contained in the CSA?"

<sup>18</sup> The Ruling identified the following issue for consideration in this Application: "How does the firm access rights proposal differ from a path-specific system, and what are the advantages and disadvantages of each system?"

<sup>19</sup> The Ruling identified the following issue for consideration in this Application: "How does the firm access rights proposal differ from a path-specific system, and what are the advantages and disadvantages of each system?"

<sup>20</sup> The Ruling identified the following issue for consideration in this Application: "Do the proposed transmission zones provide an advantage to liquefied natural gas (LNG) supplies that might enter through Otay Mesa using the proposed Southern Transmission Zone?"

<sup>21</sup> The Ruling identified the following issue for consideration in this Application: "Do the proposed transmission zones discriminate against California natural gas producers?"

competition of supply sources and therefore believes that these matters should be set for evidentiary hearings.

Third, the Ruling questions whether there are potential capacity constraints along the Rainbow Corridor.<sup>22</sup> The Ruling also raises the issue of whether the Rainbow Corridor (Lines 6900, 1027, and 1028) should be designated as a collective receipt point or whether the lines should be considered local transmission facilities.<sup>23</sup> SCE agrees that these issues should be included in this proceeding in view of Resolution G-3377, which states:

"SoCalGas shall file supplemental testimony in A.04-12-004 to provide a detailed explanation of potential capacity constraints along the Rainbow Corridor and how the pipeline capacity in the Rainbow Corridor could affect the system integration proposal in that application. The testimony should also discuss how to integrate the Rainbow Corridor both as a receipt point for SDG&E (with firm tradable rights at that receipt point) as well as local transmission capacity for SoCalGas."<sup>24</sup>

Similarly, the Ruling raises the issue of whether approval of construction activities is contemplated in the SoCalGas/SDG&E FAR proposal,<sup>25</sup> in addition to the utilities' system integration<sup>26</sup> and off-system delivery<sup>27</sup> proposals. Whether there are any physical changes to the SoCalGas system (which construction would

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<sup>22</sup> The Ruling identified the following issue for consideration in this Application: "Are there potential capacity constraints along the Rainbow Corridor (Lines 6900, 1027 and 1028), and what impact will this have on the system integration and firm access right proposals? (See draft Resolution G-3377.)"

<sup>23</sup> The Ruling identified the following issue for consideration in this Application: "Should the Rainbow Corridor be designated a receipt point and be included in a transmission zone, or should it be considered local transmission facilities? (See draft Resolution G-3377.)"

<sup>24</sup> Resolution G-3377, Ordering Paragraph 4.

<sup>25</sup> The Ruling identified the following issue for consideration in this Application: "Does the firm access rights proposal contemplate approval of any construction activities, and if so, shouldn't the approval of the construction activities be considered in a separate application?"

<sup>26</sup> The Ruling identified the following issue for consideration in this Application: "Does the system integration proposal contemplate approval of any construction activities, and if so, shouldn't the approval of the construction activities be considered in a separate application?"

<sup>27</sup> The Ruling identified the following issue for consideration in this Application: "Does the off-system delivery proposal contemplate approval of any construction activities, and if so, shouldn't the approval of the construction activities be considered in a separate application?"

clearly represent) as a result of the SoCalGas/SDG&E proposal (or alternative proposals by other parties) is a factual question that should be examined in this proceeding. To delay consideration of any likely or necessary physical changes to the system until a later proceeding would undercut parties' ability to develop a complete and informed opinion on the FAR proposal.<sup>28</sup> It is not possible to understand the need (or lack thereof) for a physical change without understanding the current operation of the system. To that end, the Commission should require SoCalGas to identify constraints (including receipt point capacity and other constraints on the SoCalGas backbone transmission system) and to provide to the Commission and customers flow diagrams that quantify SoCalGas' firm transmission capacity available under normal design conditions.<sup>29</sup>

Finally, one key aspects of any decision on the implementing of the FAR proposal or any alternative proposal would be the effect of the proposal on existing contract rights (including SCE's Wheeler Ridge Contract). SCE has paid for firm access rights at Wheeler Ridge since 1993,<sup>30</sup> and SoCalGas' proposal in its FAR application to terminate the contract is not justified. Therefore, SCE believes that the impact of the FAR proposal on existing firm access rights contracts should be specifically called out as an issue in the scoping memo for this proceeding.

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<sup>28</sup> SCE's comments relating to the application of construction activities to SoCalGas/SDG&E's FAR proposal also apply to SoCalGas/SDG&E's system integration and off-system proposals.

<sup>29</sup> At the March 23, 2005 prehearing conference in Phase II of R. 04-01-025, SoCalGas indicated that it did not object to the issue of the physical capacity of SoCalGas' system being raised in A. 04-12-004. Tr., PHC, p. 58 (March 23, 2005). SoCalGas also indicated that it would be willing to provide the model runs in A. 04-12-004 on the operational flows under different operating constraints. Tr. PHC p. 56 (March 23, 2005).

<sup>30</sup> SCE continues to be required to pay for firm access rights at Wheeler Ridge. However, due to the unique manner in which SoCalGas schedules deliveries into its system, i.e., relying on upstream pipelines to confirm rights to deliver into the SoCalGas system rather than confirming deliveries based upon rights on its own system, SCE has not been able to make commercial use of these rights since it gave up its firm capacity on PG&E's Line 401 during the restructuring of its system pursuant to AB 1890.

### System Integration:

The Ruling lists the questions of (1) whether the SoCalGas/SDG&E transmission systems should continue to be integrated on an operational basis,<sup>31</sup> and (2) whether SoCalGas/SDG&E's transmission systems should be integrated on an economic basis.<sup>32</sup> With regard to the continued operation of the SoCalGas/SDG&E transmission systems, the Commission should examine the effects of operating the two systems on an integrated basis in terms of economic efficiencies, effects on competition, advantages that may be conferred on one customer over another, and other related issues. SCE is not convinced that the operational integration of the two systems should result in economic integration, but it is clear that if the Commission determines the two utilities should not continue to be integrated on an operational basis it does not make sense to integrate them on an economic basis.

With respect to SoCalGas/SDG&E's economic system integration proposal, SoCalGas has not squarely demonstrated how the supposed benefits of the proposed integration will economically benefit all customers when compared to the current rate structure. The potential economic integration of the two utility systems raises a number of questions including the basis for the integration (e.g., whether rates should be set based on long run marginal cost ("LRMC"), embedded cost, or some other basis), the effect of the SoCalGas/SDG&E proposal on the Sempra-wide electric generation rate (including the appropriateness of such a rate<sup>33</sup>), and

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<sup>31</sup> The Ruling identified the following issue for consideration in this Application: "Should the gas transmission systems of SDG&E and SoCalGas continue to be integrated on an operational basis?"

<sup>32</sup> The Ruling identified the following issue for consideration in this Application: "Should the gas transmission system of SDG&E and SoCalGas be integrated on an economic basis, including the transmission component of the gas transportation rates of SDG&E and SoCalGas?"

<sup>33</sup> The Commission approved a system wide electric generation rate in D. 00-04-060 over the objections of ORA that such a rate was an illegal and anti-competitive subsidy. The Commission reasoned that subsidizing SDG&E's electric generation customers would foster electric generation

Continued on the next page



whether the cost of service studies presented in SoCalGas/SDG&E's Application Nos. 02-12-027 and 02-12-028<sup>34</sup> provide an adequate basis upon which to examine and apportion the relative costs. While the policy question of economic system integration can be determined in A.04-12-004, economic system integration is largely a ratemaking issue and to that extent, its proper forum is SoCalGas and SDG&E's BCAPs.

**Off-System Deliveries:**

Currently, SoCalGas and SDG&E have no tariffs to deliver gas off-system. However, in Decision No. 04-09-022, the Commission indicated that SoCalGas should make a showing on off-system deliveries as part of its system integration/firm access rights filing, but only into the PG&E system.<sup>35</sup> The ability to make off-system deliveries can enhance the liquidity of the gas market by increasing the number of market participants and the number of marketing options. Therefore, SCE believes that it is appropriate to reconsider in this proceeding the limitation imposed by Decision No. 04-09-022 and to consider the impact of off-system deliveries at all of SoCalGas' interconnection points.<sup>36</sup>

**Peaking Rate:**

In D.04-09-022 (i.e., the Phase I decision of R. 04-01-025), the Commission found in Finding of Fact 54 that either SoCalGas' BCAP or this proceeding would be

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Continued from the previous page

in SDG&E's service territory and increase competition at the PX thereby reducing electric rates overall. The PX is now long bankrupt. Electric utilities now purchase power under power purchase agreements selected through an auction process and bear the burden through tolling agreements of purchasing natural gas for most of the electricity generated under such agreements. They seek to make such purchases at the lowest possible price for natural gas. It is, therefore, clear that the rationale upon which the Sempra-wide EG rate was based no longer has a factual basis.

<sup>34</sup> Application Nos. 02-12-027 and 02-12-028 are SoCalGas/SDG&E's cost of service applications.

<sup>35</sup> See Section 7.9 of Decision No. 04-09-022, mimeo p. 74.

<sup>36</sup> The Ruling identified the following issue for consideration in this Application: "Should off-system deliveries by SoCalGas and SDG&E be limited to connections with PG&E as provided for in D.04-09-022?"

an appropriate forum for addressing reconsideration of the SoCalGas peaking rate.<sup>37</sup> More specifically, the Commission observed that "since the peaking rate issue is also related to the system integration proposal, the peaking rate issue may be raised in the system integration/firm access rights proceeding."<sup>38</sup> In view of D.04-09-022, SCE supports the Ruling's inclusion of this issue within the scope of A.04-12-004.<sup>39</sup> Further, it is appropriate to reconsider the peaking rate in view of the firm fixed variable rate proposed in the SoCalGas/SDG&E FAR proposal, which arguably makes the peaking rate no longer useful or necessary.<sup>40</sup> Finally, SCE does not believe that D.04-09-022 resolved the question of whether deliveries to SDG&E at Otay Mesa would subject SDG&E to the peaking rate (until such time as the peaking rate is eliminated).<sup>41</sup> SCE believes that the specific issue of the applicability of the peaking rate to SDG&E should be addressed in this proceeding as part of the Commission's reconsideration of the peaking rate.

### III.

#### SCHEDULE FOR PROCESSING A.04-12-004

Many of the issues identified in the Ruling involve factual matters that can be vetted only with full and open discovery. SCE has already commenced discovery;

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<sup>37</sup> "The BCAP or the application regarding system integration and firm access rights are appropriate forums for addressing reconsideration of SoCalGas' peaking rate." D.04-09-022, mimeo p. 88.

<sup>38</sup> D.04-09-022, mimeo p. 69.

<sup>39</sup> The Ruling identified the following issue for consideration in this Application: "Should SoCalGas' peaking rate be examined in this proceeding?"

<sup>40</sup> SoCalGas has indicated that unless the Commission keeps the peaking rate or adopts straight fixed variable rates for SoCalGas, the regulatory gap between the rates of SoCalGas and the interstate pipelines creates an incentive for large noncore customers to engage in uneconomic partial bypass of the SoCalGas system. D.04-09-022, mimeo, p. 69.

<sup>41</sup> SoCalGas' tariff GT-PS provides that the peaking rate applies to gas transportation service provided to any noncore customer who bypasses SoCalGas' service, in part or in whole. According to the tariff, bypass is defined as any situation where a customer of SoCalGas becomes connected to, and receives gas from an alternate supply source or an alternate gas transportation service provider.

however, given the significant issues in this proceeding, SCE requests that the Commission consider a hearing schedule that would allow parties adequate time to complete discovery and resolve discovery disputes before the filing of intervenor testimony.

Respectfully submitted,

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